



USAID
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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/ MOZAMBIQUE'S COMPLIANCE WITH FINANCIAL AUDIT REQUIREMENTS REGARDING FOREIGN RECIPIENTS

AUDIT REPORT NO. 4-656-06-015-P

September 22, 2006

PRETORIA, SOUTH AFRICA



Office of Inspector General

September 22, 2006

MEMORANDUM

TO: USAID/Mozambique, Mission Director, Jay L. Knott

FROM: RIG/Pretoria, Nathan S. Lokos /s/

SUBJECT: Audit of USAID/Mozambique's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-656-06-015-P)

This memorandum transmits our final report on the subject audit. In finalizing this report, we considered management comments on our draft report and have included your response in its entirety as Appendix II.

This report includes seven recommendations that USAID/Mozambique: 1) develop and implement an effective audit tracking system; 2) obtain and submit audit reports for recipients with delinquent annual audits; 3) amend its Mission Order 9-8, dated September 11, 1991; 4) obtain and submit audit reports for all expired awards requiring closeout audits; 5) include all identified host country contracts in its award inventory for fiscal year 2006; 6) amend Mission Order 9-8 to include procedures for including host country contracts in award inventories and annual plans; and 7) obtain and submit closeout audits for 11 implementing instruments of host country contracts in excess of \$500,000.

In response to the draft report, the Mission concurred with all the recommendations and included corrective actions and target dates for Recommendation Nos. 2-7. We reviewed USAID/Mozambique's response and consider that a management decision has been reached for each recommendation. Please provide the Audit, Performance and Compliance Division (M/CFO/APC) with evidence of final action in order to close the recommendations.

Although the Mission has implemented corrective actions for Recommendation No. 1, it still needs to address the four controls specified in the recommendation. A management decision can be reached for Recommendation No. 1 when USAID/Mozambique provides corrective action plans and target completion dates that will correspond with the four controls stated therein. Please advise my office within 30 days of the actions you have planned or taken to implement Recommendation No. 1.

I appreciate the cooperation and courtesy extended to my staff throughout the audit.

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SUMMARY OF RESULTS

The Regional Inspector General/Pretoria performed this audit to determine whether USAID/Mozambique effectively managed its financial audit program in accordance with USAID policies and procedures for fiscal years 2003, 2004, and 2005. (See page 3.)

USAID/Mozambique did not effectively manage its financial audit program during the period covered by the audit. Specifically, USAID/Mozambique did not ensure that planned audits of recipients were performed in a timely manner, delinquent audits were followed up on and completed, or standard statements of work were used. To help correct and strengthen these problem areas, we recommended that USAID/Mozambique 1) develop and implement an audit tracking system to better monitor and ensure timely submission of planned audits and 2) complete all identified delinquent audits. (See pages 4 - 6.)

In addition, although USAID/Mozambique prepared award inventories and annual audit plans for fiscal years 2003-2005, those plans were incomplete. Specifically, the plans omitted required closeout audits for 11 expired awards. The amount of USAID funding included in those awards totaled \$28.5 million. Further, the Mission funded three contracting entities with host country contracts, totaling \$75.7 million, which were not included in the award inventories and were, therefore, not considered for inclusion in the audit plans. We recommended that USAID/Mozambique 1) amend its Mission Order dealing with recipient audits to ensure that expiring awards requiring closeout audits are included in future audit plans, 2) complete all required closeout audits, 3) include host country contracts in the current award inventory, 4) amend Mission procedures regarding audits of host country contracts, and 5) have required closeout audits performed for expired host country contracts. (See pages 6 - 9.)

The report has seven recommendations to help USAID/Mozambique improve its financial audit program with regard to foreign recipients. In response to the draft report, the Mission concurred with all recommendations. The Mission provided planned corrective actions and target dates for Recommendation Nos. 2-7. The Mission recognized the need to minimizing delays in the audit process. USAID/Mozambique stated that the Mission workload was too much for local CPA firms to carry out audits and was considering outsourcing CPA firms from abroad.

USAID/Mozambique intends to amend its Mission Order 9-8, dated September 11, 1991 to include procedures to ensure that closeout audits of expiring award in excess of \$500,000 are added in the future audit plans and include host country contracts in award inventories and annual audit plans when necessary. We consider that a management decision has been reached for Recommendation Nos. 2-7.

However, for Recommendation No. 1, the Mission still needs to address the four controls stated therein to reach a management decision for this recommendation.

BACKGROUND

USAID administers most of its foreign assistance programs by awarding contracts, grants and cooperative agreements to U.S.-based and foreign organizations. In order to help ensure accountability over funds given to such organizations, USAID and the Office of Inspector General (OIG) have jointly developed a financial audit program as outlined in Automated Directives System (ADS) 591. This section of the ADS requires that USAID missions, in consultation with the cognizant Regional Inspector General (RIG), ensure that required financial audits are conducted for foreign for-profit and nonprofit organizations and host government entities (including any Mission-funded activities in nonpresence countries), and local currency special accounts.

All foreign nonprofit organizations expending more than \$300,000 of USAID funds during their fiscal year are required to have an annual financial audit performed. A closeout audit is required for awards in excess of \$500,000. Incurred cost audits must be performed annually of all foreign for-profit organizations performing under direct awards or cost reimbursable host country contracts and subcontracts.¹ To ensure that such audits are performed in a timely and acceptable manner, Missions are required to develop annual audit plans which are populated from inventories maintained by the Missions of all contracts, grants and cooperative agreements, including cash transfer and nonproject assistance grants, awards financed with host country owned local currency and activities in nonpresence countries for use in determining audit requirements.

The audits are normally performed by independent auditors acceptable to the cognizant RIG and contracted by recipients using a standard statement of work. On occasion, USAID missions may contract directly with an audit firm to conduct financial audits of foreign recipients or locally-incurred costs of U.S.-based recipients. Audits of USAID recipients are required to be performed in accordance with U.S. Government Auditing Standards as well as the OIG's *Guidelines for Financial Audits Contracted by Foreign Recipients*. Missions must ensure that such audit reports are submitted to the cognizant RIG for review and issuance no later than nine months following the end of the audited period.

In fiscal year 2005, USAID/Mozambique had 37 non-U.S.-based recipients. During fiscal years 2003-2005, the Mission reported budget authorizations totaling \$162.6 million for programs in:

- Increased Rural Incomes.
- Government and Civil Society are Effective Partners.
- Maternal and Child Health.
- Environment for Growth.
- Rural Incomes.
- Exports.
- HIV/AIDS.
- Municipal Governance.

¹ In terms of a 2005 revision to ADS 591, there is no automatic requirement for annual incurred cost audits for foreign for-profit organizations. Instead, Missions are required to annually assess risks to determine whether financial audits are warranted and the results of these risk assessments must be shared with the cognizant RIG office. The 2005 revision to ADS 591 was subsequent to the period covered by this audit.

AUDIT OBJECTIVES

The Regional Inspector General/Pretoria (RIG/Pretoria) performed an audit of the Mission's compliance with financial audit requirements regarding foreign recipients because it has been RIG/Pretoria's experience that USAID missions in eastern and southern Africa have generally not been complying with Automated Directives System (ADS) 591 in terms of ensuring that required financial audits of foreign recipients are conducted in a timely and acceptable manner. To determine USAID/Mozambique's compliance with USAID rules and regulations regarding financial audits of its foreign recipients, the audit was performed to answer the following questions:

Objective No. 1: Did USAID/Mozambique ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

Objective No. 2: Did USAID/Mozambique ensure that annual audit plans included all recipients from its award inventory that required a financial audit?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

Did USAID/Mozambique ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

USAID/Mozambique did not ensure that all planned financial audits of foreign recipients² were performed and submitted in accordance with USAID rules and regulations.

The majority of USAID/Mozambique's planned financial audits of foreign recipients were not submitted to RIG/Pretoria within nine months after the end of the audited period, as required by the Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients* (Guidelines). For the six audit reports actually received by RIG/Pretoria, the average submission time was 58 days (approximately two months) after they were due. The subsequent sections of this report will more fully address this area in detail.

USAID/Mozambique has planned for and submitted its audit inventories and audit plans to RIG/Pretoria for fiscal years 2003 - 2005. Since November 15, 2002, RIG/Pretoria has issued five financial audit reports of USAID/Mozambique recipients covering \$11.3 million in expenditures of USAID funds. Those audit reports included recommendations that addressed \$954,278 in questioned costs, 10 internal control weaknesses, and 23 instances of material noncompliance with applicable laws and regulations.

There were several areas identified during our audit in which USAID/Mozambique could improve its recipient financial audit program including timeliness and follow-up on delinquent audits.

Audit Reports Not Submitted Within Required Timeframe

Summary: According to Agency regulations, USAID missions must submit audit reports of foreign recipients to the cognizant Regional Inspector General (RIG) no later than nine months after the end of the audited period. Eight of ten audits in USAID/Mozambique's audit plans for fiscal years 2003 to 2005 were not submitted to RIG/Pretoria within the required timeframe. This occurred due to a lack of understanding between Mission personnel and recipients. Audits that are not completed in a timely manner reduce USAID's accountability over funds awarded to recipients.

Automated Directives System (ADS) 591.3.2.1 requires that foreign nonprofit organizations and host governments that expend \$300,000 or more of USAID funds during their fiscal year must have an annual audit conducted in accordance with the Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients* (Guidelines). Paragraphs 1.16 and 2.3 of the Guidelines spell out the timeframe within which recipients must submit final audit reports to the cognizant USAID

² For the purpose of this audit, foreign recipients include non-U.S.-based grantees and contractors who were awarded grants, contracts or cooperative agreements.

mission, which, in turn, will forward them to the RIG for review and issuance. According to the Guidelines, the cognizant RIG must receive the audit report no later than nine months after the end of the audited period.

USAID/Mozambique's annual audit plans prepared for fiscal years 2003, 2004, and 2005 included ten distinct planned financial audits of seven different recipients. The breakdown of the ten audits is presented in Table 1 below.

Table 1
Recipient Audits in Annual Plans for Fiscal Years 2003-2005

Number of recipients	# of annual audits in plans	Totals
3	2	6
4	1	4
7		10

Of the ten planned audits, two reports were submitted to RIG/Pretoria for review and issuance on or before the required due date. For the six audit reports actually received by RIG/Pretoria, the average submission time was 58 days (approximately two months) after they were due.

The lack of timeliness was caused by several reasons, which include a lack of understanding between Mission personnel and recipients regarding the ADS requirements, ineffective management of audit firms to ensure that the planned audits were performed and submitted within the required timeframe, and a lack of continuity planning between the departure and arrival of key Mission personnel. As a result, not only were the planned audits not submitted in a timely manner, but many were not submitted at all. For example, only six of the ten audits included in the Mission's audit plans for fiscal years 2003, 2004, and 2005 had been submitted to RIG/Pretoria as of December 31, 2005. The remaining four audits (listed in Appendix III) had either not been performed, or, if performed, had not been submitted to RIG/Pretoria.

Delayed performance and submission of audit reports reduces USAID's accountability over funds awarded to recipients. This also increases the risk that recipients' financial records are no longer available for audit, or that their offices have ceased operations making the determination and recovery of potential questioned costs difficult or impossible. Even when records do exist, or the recipient is still in operation, untimely audit reports lose their usefulness because management (USAID or recipient) cannot, based on the reports, implement corrective actions in a timely manner to prevent fraud, waste and abuse. Total estimated expenditures not audited on a timely basis amounted to over \$7.6 million, while the estimated expenditures of planned audits not submitted at all amounted to over \$3.3 million.

For the mission to be able to submit timely audit reports to RIG/Pretoria, it must have a system to monitor the status of planned audits and dedicated personnel to provide interventions when targeted milestones are not being met. Therefore, we are making the following recommendations:

Recommendation No. 1: We recommend that USAID/Mozambique develop and implement an effective audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports to RIG/Pretoria. This system should, at a minimum, include controls to ensure that:

- *Appropriate timing targets and milestones are set for each audit in the Mission's current audit plan.*
- *Audit instructions are sent to recipients prior to the recipient's fiscal year end requesting them to initiate the procurement for the audit.*
- *Periodic follow-up is performed to determine the implementation status of all planned audits.*
- *Corrective actions are taken and documented for audits that are not progressing as planned.*

Recommendation No. 2: We recommend that USAID/Mozambique obtain and submit audit reports for all recipients with delinquent annual audits.

Did USAID/Mozambique ensure that annual audit plans included all recipients from its award inventory that required a financial audit?

USAID/Mozambique did not ensure that annual audit plans included all recipients from its award inventories that required a financial audit.

Automated Directives System (ADS) 591.3.3.2 refers to Contract Information Bulletin (CIB) 90-12 which requires that all awards in excess of \$500,000 be subject to a final closeout audit. USAID/Mozambique's annual audit plans omitted 16 expired direct awards that required closeout audits. Additionally, ADS 591.3.4.2 requires host country contracts to be included in award inventories. Thirteen host country contracts, active during fiscal year 2003-2005, were not included in the Mission's award inventories for those years. The subsequent sections of this report will more fully address this area in detail.

As required by ADS 591.3.4.2, USAID/Mozambique developed award inventories for fiscal years 2003, 2004, and 2005. The award inventories for fiscal years 2004 and 2005 included the required information for each award, including contractor/grantee name, type of organization, award number, amount in U.S. dollars, start/completion dates, prior audits and period covered, receipt date for required audits, dates for planned audits, and reason(s) for not including an award in the annual audit plan. The Mission also developed an annual audit plan for each of those fiscal years which included ten distinct audits of foreign recipients receiving awards listed in those inventories.

Although USAID/Mozambique prepared the award inventories and related audit plans as required, not all awards that required audits were included in the audit plans.

Awards Requiring Closeout Audits Need To Be Included In Audit Plans

Summary: Agency policy requires that all awards in excess of \$500,000 be subject to a final closeout audit. The policy also states that annual incurred cost audits must be accepted as fulfilling closeout audit requirements. USAID/Mozambique’s annual audit plans omitted 11 expired direct awards that required closeout audits. This occurred because Mission officials were unaware of the 11 expired awards. As a result, \$28.5 million of USAID funds that should have been audited remains unaudited.

Automated Directives System (ADS) 591.3.3.2 states that Contract Information Bulletin (CIB) 90-12 requires “all awards in excess of \$500,000 be subject to a final closeout audit.” This section of the ADS also states that annual audits, performed in accordance with the *Guidelines for Financial Audits Contracted by Foreign Recipients* must be accepted as fulfilling the close-out audit requirements for foreign nonprofit organizations.

The intent of CIB 90-12 is to ensure that awards to recipients whose expenditures do not exceed the \$300,000 threshold on an annual basis, but amount to significant amounts of expenditures over the life of the award, are audited to ensure proper closeout of the award. Recipients which had not had annual audits performed and which had awards in excess of \$500,000 were identified from the Mission’s award inventories.

USAID/Mozambique’s award inventories for fiscal years 2003, 2004, and 2005 included 11 expired direct awards over the \$500,000 threshold which were not included in the Mission’s respective annual audit plans. According to the Mission’s award inventories and audit plans for fiscal years 2003 – 2005, these expired awards had no recent annual audits prior to the recipient’s award completion date. Consequently, required closeout audits were not conducted for those awards. In addition, there were no recent annual audits performed for these awards prior to the award completion date. A list of the 11 awards requiring closeout audits is included as Appendix IV in this report. The following table, relating to unaudited expired awards, presents the amount of time that expired between the completion date of the award and December 31, 2005.

Table 2
Aging of Expired Awards Requiring Closeout Audits

Under 1 yr.	Over 1 yr – under 3 yrs.	Over 3 years – under 5 yrs.	Over 5 yrs.	Total
7	1	2	1	11

Mission officials did not include these expired awards in annual audit plans because they were unaware of the 11 expired awards. The most commonly stated reason stated in the Mission’s award inventories for not including such awards in the annual audit plans was that the expenditures were less than \$300,000 for the recipient’s fiscal year. Also, USAID/Mozambique’s Mission Order 9-8, dated September 11, 1991 regarding “Audit and Investigations of USAID funded Activities in Mozambique” did not include any procedures regarding the planning or performance of closeout audits of awards exceeding \$500,000.

As a result, 11 expired direct awards that should have received closeout audits remain unaudited. The amount of USAID funding included in those awards totaled \$28.5 million.

Closeout audits are important tools in the control and accountability of USAID funds. Such audits may be used, among other things, to finalize indirect cost rates and to determine whether the disposition of USAID-funded assets was properly performed at the end of a project or activity. A closeout audit of expenditures of USAID funds would be especially important when a recipient may have expended less than \$300,000 in any single year, but the total award was over \$500,000. Such recipients may never have been subject to a USAID audit as required. Further, according to ADS 591.3.3.2, Contract/Grant Officers cannot proceed with the closeout process until final action has been taken on all audit recommendations. Finally, because they were not included in the Mission's audit plans during the period they were due; such audits would not be performed within the required timeframe. We are, therefore, making the following recommendations:

Recommendation No. 3: We recommend that USAID/Mozambique amend its Mission Order 9-8, dated September 11, 1991 to ensure that closeout audits of expiring awards in excess of \$500,000 are included in future audit plans and performed as required.

Recommendation No. 4: We recommend that USAID/Mozambique obtain and submit audit reports for all expired awards requiring closeout audits.

Host Country Contracts Need To Be Included in Award Inventories

Summary: Agency policy requires missions to maintain an inventory of all awards from which annual audit plans may be developed. Agency policy also dictates that host country contracts³ are subject to the same USAID audit requirements as direct contracts. Thirteen host country contracts, active during fiscal year 2003-2005, were not included in the Mission's award inventories for those years. This occurred because Mission officials misunderstood the USAID requirements that host country contracts needed to be included in award inventories, or that host country contracts were subject to USAID audit requirements. As a result, 13 implementing instruments for four host country contracts, totaling \$75.7 million in USAID funds, were not considered for inclusion in the Mission's annual audit plan for potential financial audits and, therefore, oversight of USAID funds was diminished.

ADS 591.3.4.2 requires missions to "maintain an inventory of all contracts, grants and cooperative agreements, including cash transfer and nonproject assistance grants, awards financed with host country-owned local currency, and activities in nonpresence countries for use in determining audit requirements." Country Contracting Handbook section 3.8 states that an audit of non-U.S.-based firms shall be a cost-incurred, financial

³ ADS Glossary defines Host Country Contracting as "A means of program implementation in which USAID finances, but is not a party to, contractual arrangements between the host country and the supplier of goods and/or services." ADS 301.5.1a states that when USAID decides to use host country contracting procedures, it acts as financier and not a contracting party, reserving certain rights of approval and activity monitoring.

audit performed by the principal audit agency to the host country or an independent audit agency acceptable to the USAID Inspector General and as set forth in the Strategic Objective Agreement (SOAG) or a SOAG Implementation Letter. It further adds that the Guidelines should be followed in the selection of auditors and that the auditors should observe the Guidelines in planning, conducting, and reporting the results of the audit. Moreover, section 3.9 of the Country Contracting Handbook specifically states that “Final payment to the contractor is withheld until the contractor provides evidence that it has met all of its obligations under the contract and all required certifications (including acceptance of the work by the Contracting Agency) have been executed and the contract has been *audited*, as provided above. The USAID Activity Manager will be notified of contract closeout and contract files will be maintained in storage at least three years from the final disbursement under the SOAG.” (emphasis added)

RIG/Pretoria obtained a list of USAID-funded host country contracts from USAID/Mozambique that were active during the fiscal years 2003-2005. A comparison of this list to the Mission’s award inventories revealed that three contracting entities with 13 implementing instruments for four host country contracts totaling \$75.7 million were not included in the award inventories. A list of the 13 implementing instruments for the four host country contracts appears as Appendix V in this report. Of these 13 implementing instruments, 11 exceeded \$500,000 and are subject to closeout audits.

This occurred because Mission officials misunderstood the USAID requirements that host country contracts should be included in the Mission’s award inventories and considered for potential financial audits.

To prevent the omission of host country contracts from the Mission’s award inventories in the future, we are making the following recommendations:

Recommendation No. 5: We recommend that USAID/Mozambique include all identified host country contracts in its award inventory for fiscal year 2006.

Recommendation No. 6: We recommend that USAID/Mozambique amend Mission Order 9-8 dated September 11, 1991 to include procedures for including host country contracts in award inventories and annual audit plans, as appropriate.

Recommendation No. 7: We recommend that USAID/Mozambique obtain and submit closeout audits for the 11 implementing instruments of the host country contracts in excess of \$500,000.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Mozambique concurred with all seven recommendations. For Recommendation Nos. 2 and 4, the Mission set forth its plans to seek more capable CPA firms to minimize delays in the audit process. This includes outsourcing CPA firms from abroad to ensure that the USAID/Mozambique submits audit reports in a timely manner that complies with the *Guidelines* to reduce the iterative drafting of audit report when reviewed by RIG/Pretoria.

The Mission will amend its Mission Order 9-8, dated September 11, 1991 as a response to Recommendation Nos. 3 and 6 to ensure that closeout audits of expiring awards in excess of \$500,000 are included in future audit plans. In addition, the amended Mission Order 9-8 will include procedures for including host country contracts in award inventories and annual plans, when appropriate.

To address Recommendation No. 5, USAID/Mozambique will include all identified host country contracts in its award inventory for fiscal year 2006. The Mission addressed Recommendation No. 7 as it will include all host country contracts detail in its audit inventory list for fiscal year 2006. Therefore, we consider that a management decision has been reached for Recommendation Nos. 2-7.

Although the Mission has implemented its corrective actions to address Recommendation No. 1, stating that an audit coordinator is systematically following up on the audit process by providing guidance, instruction and recommending corrective actions for audits that are not proceeding as planned and monitoring audit tracking system and observing the timely updating of audits, USAID/Mozambique still needs to address the following controls specified in the recommendation, namely:

- Appropriate timing targets and milestones are set for each audit in the Mission's current audit plan.
- Audit instructions are sent to recipients prior to the recipient's fiscal year end requesting them to initiate the procurement for the audit.
- Periodic follow-up is performed to determine the implementation status of all planned audits.
- Corrective actions are taken and documented for audits that are not progressing as planned.

A management decision may be reached when the Mission provides RIG/Pretoria with a detailed corrective action plan and target dates to address the four controls stated in Recommendation No. 1.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria (RIG/Pretoria) performed this audit in accordance with generally accepted government auditing standards. The audit was performed at the Regional Inspector General in Pretoria, South Africa. The audit notification was sent on December 20, 2005. The audit was conducted from March 24 through April 16, 2006.

The audit covered financial audit requirements for USAID/Mozambique's awards to non-U.S.-based recipients during fiscal years 2003, 2004, and 2005.

The type of evidence examined during the audit included, but was not limited to, award inventories and audit plans submitted by the Mission for fiscal years 2003 - 2005, RIG/Pretoria's Audit Management Database and archives, and correspondence from the Mission.

For the most part, we relied on the accuracy and completeness of the award inventories that were submitted by the Mission to RIG/Pretoria because the responsibility for preparing award inventories rests with the Mission's Audit Management Officer, who should have the technical capacity to prepare reliable award inventories. The primary focus of our audit was the development and execution of the annual audit plans from those award inventories. Thus, with few exceptions, we limited our procedures to determining whether data in the award inventories were properly used to develop the audit plans and whether those audit plans were executed in an acceptable and timely manner. We recognize the limitations of our reliance on the accuracy and completeness of the award inventories, and hereby disclose this in the audit report—the primary limitation being that all awards requiring a financial audit may not have been included in the Mission's award inventories. Further, expiration dates and total amounts of awards in inventories may not have been accurate.

With regard to internal controls, we assessed:

- Award inventories.
- Audit plans.
- Mission orders regarding financial audits.

Methodology

To accomplish the audit objectives, we reviewed and analyzed the annual audit plans and award inventories for fiscal years 2003, 2004 and 2005 submitted to RIG/Pretoria for USAID/Mozambique. We compared audit reports actually submitted to RIG/Pretoria to planned audits listed in the Mission's audit plans in order to determine the timeliness of the submission. We compared the audit plans to the award inventories to determine the accuracy of the audit plans. To determine recipients requiring closeout audits, we reviewed the Mission's award inventories and selected awards that were not subject to an annual audit prior to the program completion date. The audit also included a review of correspondence between RIG/Pretoria and the Mission regarding award inventories

and annual audit plans. We also requested additional information from the Mission when required.

For materiality thresholds, we considered the following to be material:

- Timeliness of submission of audit reports - if the number of acceptable audit reports submitted after the 9-month due date was > 10 percent of the number of planned audits, we considered the lack of timeliness to be material;
- Delinquent audit reports – any number of delinquent planned audit reports was considered to be material; and
- Completeness and accuracy of audit plans – any number of required audits not included in the audit plans was considered to be material.

This was one of a total of nine similar audits that we are performing of USAID missions within the eastern and southern Africa region. As RIG/Pretoria already possesses most of the information needed to conduct the audits, we did not consider travel to the locations of the respective missions to be necessary. Any questions regarding audit procedures or preliminary results could be handled via e-mail or telephone.

MANAGEMENT COMMENTS



USAID | **MOZAMBIQUE**
FROM THE AMERICAN PEOPLE

August 21, 2006

MEMORANDUM

TO: Nathan Lokos, Regional Inspector General/Pretoria

FROM: Kevin Armstrong, Acting Mission Director USAID/Mozambique
/s/

SUBJECT: Audit of USAID/Mozambique's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-656-06-xxx-P)

Ref: RIG/Memorandum dated July 17, 2006

We refer to the above Memorandum that contains seven recommendations for which USAID/Mozambique has been requested to provide comments and feedback:

Recommendation No. 1: We recommend that USAID/Mozambique develop and implement an effective audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports to RIG/Pretoria. This system should, at a minimum, include controls to ensure that:

- Appropriate timing targets and milestones are set for each audit in the Mission's current audit plan.
- Audit instruction are sent to recipients prior to the recipient's fiscal year end requesting them to initiate the procurement for the audit
- Periodic follow-up is performed to determine the implementation status of all planned audit
- Corrective actions are taken and documented for audits that are not progressing as planned.

Mission's comments: The Mission audit coordinator is systematically following up on the audit process by providing guidance, instruction and recommending the corrective actions for audits not proceeding as planned. Monitoring audit tracking system and observing the timely updating of audits is now being performed on a regular basis. The mission is aware of the delay of audit reports caused by the time it takes for draft reports to be placed in their final form. The lack of task specificity and understanding between Mission personnel, recipients and the CPA firms also delayed some audits. The Mission is considering outsourcing CPA firms from abroad to minimize the delay of the audit process. Currently, the Mission workload is too much for the local CPA firms that are capable to carry out audits. The Mission is also cooperating and working closely with the CTO and the recipients on appropriate timing, target setting and procurement guidelines for all audits. The Mission has also made some internal changes in the audit coordination process.

Recommendation No. 2: We recommend that USAID/Mozambique obtain and submit audit reports for all recipients with delinquent annual audits.

Mission's comments: Once the Mission resolves the shortage of capable CPA firms, the issue of obtaining and submitting audit reports to RIG will be done in a timely and an organized manner. Several of the Mission's audit reports are delayed because the CPA firms prepare numerous draft revisions of audit reports with RIG which slows the entire process. For example, our most proactive CPA firm submitted a draft audit report to RIG in August 2005; however, we are currently in August 2006 and the report is still in the draft stage. Due to the iterative nature of drafting and audit reports, the mission needs to seek more capable CPA firms. The Mission believes that by outsourcing capable CPA firms from abroad will insure that we obtain and submit audit reports in timely and an organized manner.

Target date: June 2007

Recommendation No. 3: We recommend that USAID/Mozambique amend its Mission Order 9-8, dated September 11, 1991 to ensure that closeout audits of expiring awards in excess of \$500,000 are included in the future audit plans and performed as required.

Mission's comments: Mission will amend its Mission Order 9-8, dated September 11, 1991 to ensure that closeout audits of expiring awards in excess of \$500,000 are included in the future audit plans.

Target date: October 2006

Recommendation No. 4: We recommend that USAID/Mozambique obtain and submit audit reports for all expired awards requiring closeout audits.

Mission's comments: Mission will ensure expired close-out audits will be submitted to RIG/Pretoria. We would also encourage RIG to provide us with timely feedback once the reports are submitted to their office.

Target Date: March 2007

Recommendation No. 5: We recommend that USAID/Mozambique include all identified host country contracts in its award inventory for fiscal year 2006.

Mission's comments: The Mission will include all the host country contracts detail in the new audit inventory list for 2006.

Target Date: October 2006

Recommendation No. 6: We recommend that USAID/Mozambique amend Mission Order 9-8, dated September 11, 1991 to include procedures for including host country contracts in award inventories and annual audit plans, as appropriate.

Mission comments: Mission will amend its Mission Order 9-8, dated September 11, 1991 to include procedures for including host country contracts in award inventories and annual plans, as appropriate.

Target Date: October 2006

Recommendation No. 7: We recommend that USAID/Mozambique obtain and submit closeout audits for the 11 implementing instruments of the host country contracts in excess of \$500,000.

Management comments: The Mission will include all the host country contracts detail in the audit inventory list for 2006.

Target Date: March, 2007

Should you require any additional information, please feel free to contact us.

Clearances:

Drafter: Ripon S. Zaman Date:

Acting Director: Kevin Armstrong Date:

Controller: Derrick S. Brown Date:

LIST OF DELINQUENT AUDITS AS OF DECEMBER 31, 2005

	Award Number ⁴	Recipient's Fiscal Year End	Total Amount of Award (\$)	Estimated Annual Expenditures (\$) ⁴	# of Days Between Audit Report Due Date and 12/31/05
1	656-A-00-99-00022-00 ⁵	9/30/04	2,032,202	873,337	184
2	656-C-00-00-00066-00 ⁵ & 656-I-00-01-00078-01 ⁵	5/31/04	3,399,993 2,175,000	2,040,221	275
3	656-I-00-01-00080-01 ⁵	7/31/04	1,100,000	376,951	245
4	656-A-00-04-00049-00	12/31/04	398,454	398,454	92
	Total Estimated Expenditures			3,688,963	

⁴ Award numbers and estimated annual expenditures are presented as they appear in the Mission's audit inventories.

⁵ This award number has also been included in Appendix IV of this report (list of expired awards requiring closeout audits.)

LIST OF EXPIRED AWARDS REQUIRING CLOSEOUT AUDITS

	Award Number ⁶	Award Completion Date	Total Amount of Award (in US \$)	# of Days Between Audit Report Due Date and 12/31/05
1	PIL 690-0247.56-133	12/31/01	1,048,034	1,187
2	656-I-00-01-00080-01 ⁷	03/31/05	1,535,956	0
3	656-I-00-01-00080-00	09/30/04	500,000	183
4	656-I-00-01-00078-01 ⁷	06/30/04	3,499,628	275
5	656-I-00-01-00078-00	03/31/05	744,216	0
6	656-G-00-96-00004-00	09/30/99	745,854	2,009
7	656-C-00-00-00066-00 ⁷	12/31/02	3,157,371	822
8	656-A-00-99-00022-00 ⁷	9/30/04	2,947,000	183
9	656-A-00-04-00041-00	5/31/05	2,050,000	-60 ⁸
10	656-A-00-01-00077-00	9/30/04	11,584,600	183
11	656-0229-G-00-7060-00	4/30/01	679,124	1,429
	Total		28,491,783	

⁶ Award numbers have been presented as they appear in the Mission's audit inventories.

⁷ This award number has also been included in Appendix III of this report (list of delinquent audits as of December 31, 2005.)

⁸ The audit report for this award was not due as of December 31, 2005, however, it should be included in the Mission's audit plan.

LIST OF HOST COUNTRY CONTRACT IMPLEMENTING INSTRUMENTS NOT IN AWARD INVENTORIES

	Supporting Document Number ⁹	Contract Expiration Date	Contract Amount (In US \$)
1	IL 656-0251-49	11/21/2002	7,622,922
2	IL 656-0251-65 / JV65651084	1/31/2003	514,165
3	IL 656-0251-41	8/19/2002	7,877,635
4	IL 656-0251-57	5/21/2002	1,780,779
5	IL 656-0251-64	10/21/2002	1,832,380
6	L/Com 656-0251-01 Amendment 4	10/21/2002	700,000
7	IL 656-0251-91	1/31/2004	54,906
8	L/Com 656-0251-01 Amendment 7	9/30/2004	127,276
9	IL 656-0251-41 / L/Com 656-0251-03	8/19/2002	9,156,380
10	L/Com 656-0251-03 Amendment 2	4/30/2003	619,852
11	IL 656-0244-26	9/30/2004	33,510,903
12	IL 656-0244-41	9/30/2004	6,321,002
13	IL 656-0244-42	9/30/2004	5,544,183
	Total		75,662,383

⁹ The supporting document numbers are presented as they appear in the Mission's listing of Host Country Contracts provided to RIG/Pretoria on January 6, 2006.

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